

Q3

Quarterly Market Review







Third Quarter 2020

Family CFO Inc

Your Chief Financial Officer

Quarterly Market Summary



















Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
3Q 2020	STOCKS					BONDS	
	9.21% 	4.92% 	9.56% 	2.37% 		0.62% 	0.68% 
Since Jan. 2001							
Avg. Quarterly Return	2.1%	1.4%	2.8%	2.3%		1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%		4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3		2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%		-3.0%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4		2016 Q4	2015 Q2

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

Long-Term Market Summary

Index Returns as of September 30, 2020

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	15.00%	0.16%	10.54%	-18.58%	6.98%	1.82%
						
5 Years						
	13.69%	5.32%	8.97%	2.20%	4.18%	4.33%
						
10 Years						
	13.48%	4.37%	2.50%	5.58%	3.64%	4.06%
						

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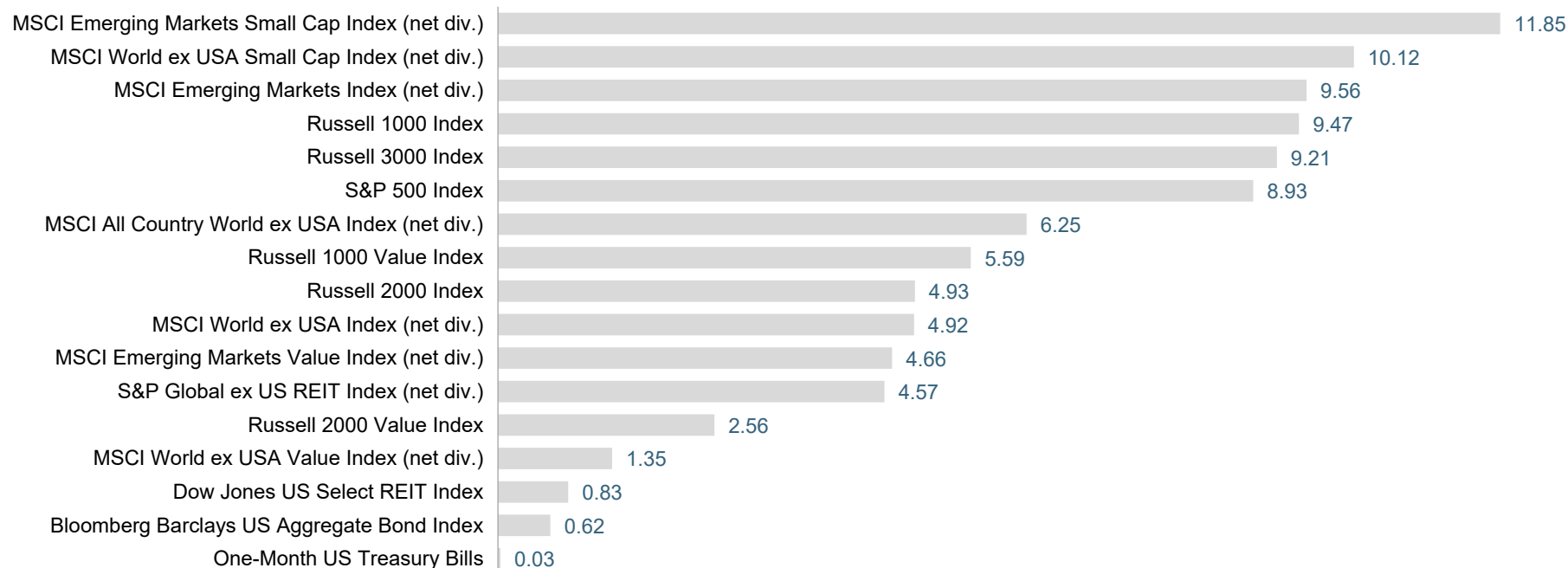
World Asset Classes

Third Quarter 2020 Index Returns (%)

Equity markets around the globe posted positive returns in the third quarter. Looking at broad market indices, emerging markets equities outperformed US and non-US developed markets for the quarter.

Value underperformed growth across regions. Small caps outperformed large caps in non-US developed and emerging markets but underperformed in the US.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



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US Stocks

Third Quarter 2020 Index Returns

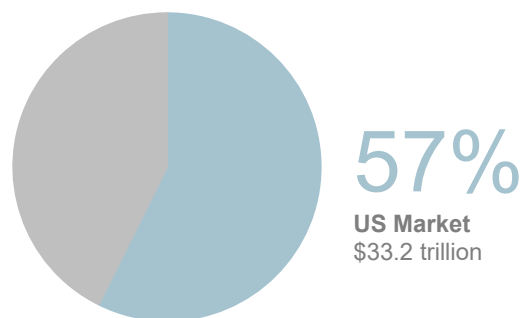
The US equity market posted positive returns for the quarter, outperforming non-US developed markets but underperforming emerging markets.

Value underperformed growth across large and small cap stocks.

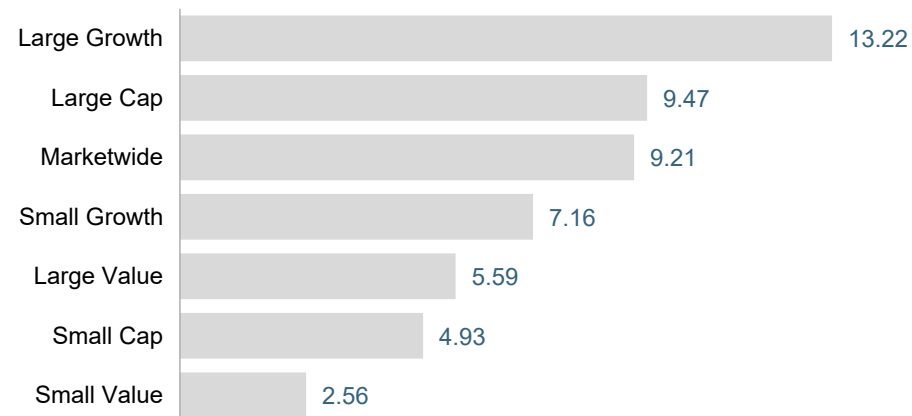
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

World Market Capitalization—US



Ranked Returns (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	24.33	37.53	21.67	20.10	17.25
Large Cap	6.40	16.01	12.38	14.09	13.76
Marketwide	5.41	15.00	11.65	13.69	13.48
Small Growth	3.88	15.71	8.18	11.42	12.34
Small Cap	-8.69	0.39	1.77	8.00	9.85
Large Value	-11.58	-5.03	2.63	7.66	9.95
Small Value	-21.54	-14.88	-5.13	4.11	7.09

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Impact of Diversification

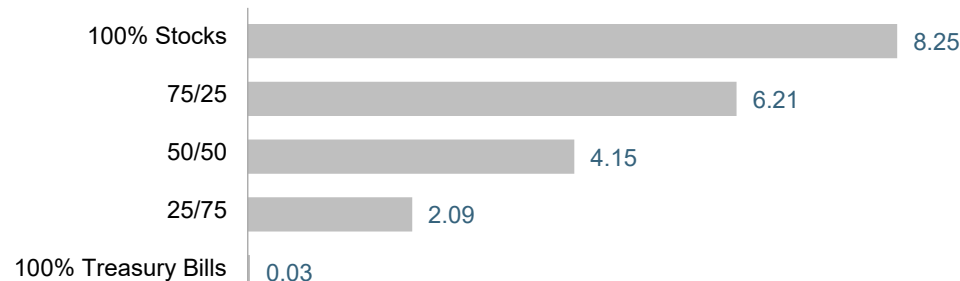
Third Quarter 2020

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

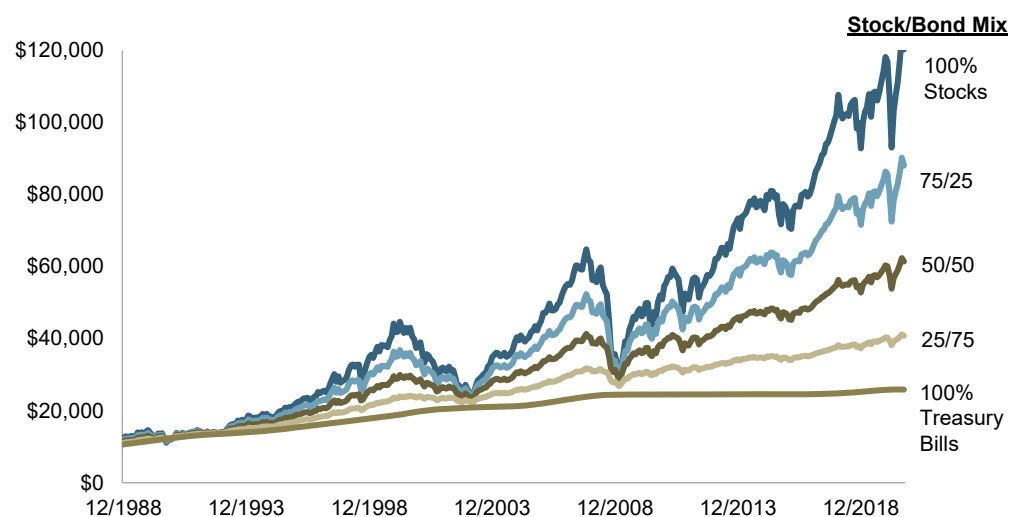
Period Returns (%)

Asset Class	* Annualized					
	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
75/25	1.90	8.89	6.40	8.58	7.12	10.28
100% Stocks	1.77	11.00	7.68	10.90	9.13	13.71
50/50	1.71	6.48	4.95	6.16	5.01	6.85
25/75	1.22	3.78	3.32	3.65	2.82	3.42
100% Treasury Bills	0.42	0.83	1.54	1.07	0.55	0.23

Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio. Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

When It's Value vs. Growth, History Is on Value's Side

Third Quarter 2020

Logic and data provide the basis for a positive expected value premium, offering a guide for investors targeting higher potential returns. There is pervasive historical evidence of value stocks outperforming growth stocks. Data covering nearly a century in the US, and nearly five decades of market data outside the US, support the notion that value stocks—those with lower relative prices—have higher expected returns.

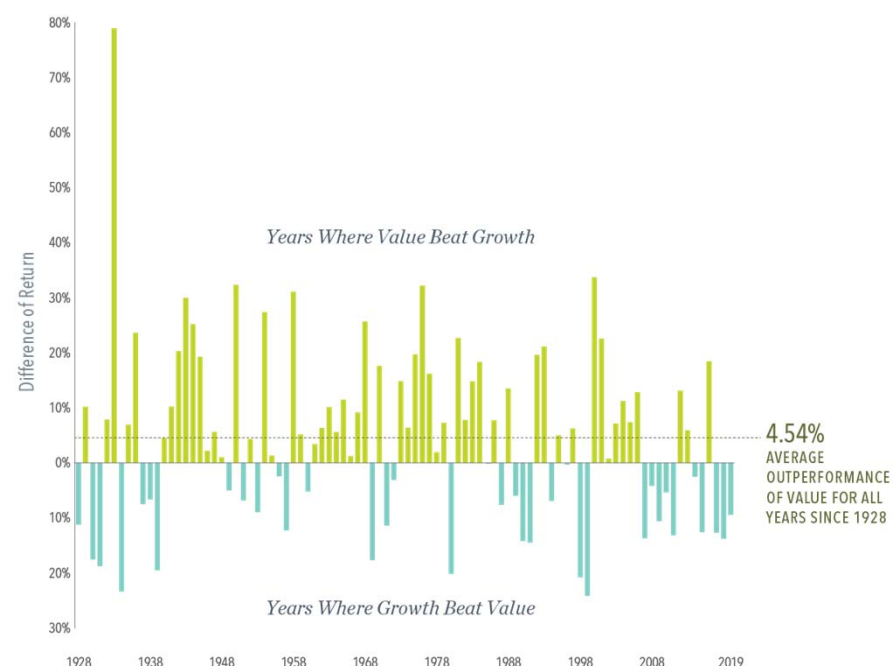
Recently, growth stocks have enjoyed a run of outperformance vs. their value counterparts. But while disappointing periods emerge from time to time, the principle that lower relative prices lead to higher expected returns remains the same. On average, value stocks have outperformed growth stocks by 4.54% annually in the US since 1928, as **Exhibit 1** shows.

Some historical context is helpful in providing perspective for growth stocks' recent outperformance. As **Exhibit 1** demonstrates, realized premiums are highly volatile. While periods of underperformance are disappointing, they are also within the range of possible outcomes.

We believe investors are best served by making decisions based on sound economic principles supported by a preponderance of evidence. Value investing is based on the premise that paying less for a set of future cash flows is associated with a higher expected return. That's one of the most fundamental tenets of investing. Combined with the long series of empirical data on the value premium, our research shows that value investing continues to be a reliable way for investors to increase expected returns going forward.

Exhibit 1. Value Add

Yearly observations of premiums: value minus growth in US markets, 1928–2019



Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

In US dollars. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Value minus growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index.

Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

When It's Value vs. Growth, History Is on Value's Side

(continued from page 18)

GLOSSARY

Value Stock: A stock trading at a low price relative to a measure of fundamental value such as book equity.

Growth Stock: A stock trading at a high price relative to a measure of fundamental value such as book equity.

Value Premium: The return difference between stocks with low relative prices (value) and stocks with high relative prices (growth).

DISCLOSURES

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